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FISCAL IMPACT STATEMENT

LS 6946 **NOTE PREPARED:** Jan 3, 2004
BILL NUMBER: SB 254 **BILL AMENDED:**

SUBJECT: CAGIT and COIT Increases For Property Tax Relief.

FIRST AUTHOR: Sen. Kenley **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** **IMPACT:** State & Local
DEDICATED
FEDERAL

Summary of Legislation: The bill allows a county to impose up to an additional 1% county adjusted gross income tax (CAGIT) rate or county option income tax (COIT) rate. The bill provides that the additional CAGIT or COIT rate must be allocated to additional property tax replacement credits (PTRC).

Effective Date: Upon passage.

Explanation of State Expenditures: Under the bill, the Department of Local Government Finance (DLGF) could have an increase in administrative time to implement the bill. The DLGF may need to adjust some computer programs. The DLGF should be able to implement these provisions within their existing resources.

Explanation of State Revenues:

Explanation of Local Expenditures: Under the bill, auditors in COIT and CAGIT counties may require additional administrative time to distribute PTRC to civil taxing units and school corporations.

Explanation of Local Revenues: *Summary:* Under the bill, counties would have the option to raise their CAGIT or COIT rates by an additional 1%. Based on the April 10, 2003, Technical Committee Revenue Forecast, if all counties raised their CAGIT or COIT rate by 1%, the increased rate would generate an estimate of $1.19 B statewide in FY 2005. The estimate assumes all counties would have either COIT or CAGIT at an additional 1%. As of June 30, 2003, 83 counties have adopted either COIT or CAGIT. As of the same date, 6 CAGIT counties and 15 COIT counties imposed their tax below a 1% rate.

Local Option Income Taxes: COIT counties that are currently not at a 1% rate would need to raise their rate to 1% in a separate ordinance, under the procedures in current law, before further raising the rate under the bill. Counties that are not at a 1% rate for COIT, yet are at the maximum combined rate for COIT and CEDIT would have to reduce or eliminate the CEDIT in order to qualify for the additional COIT rate increase allowed under the bill.

CAGIT: The bill would allow counties to implement CAGIT at 0.5%, 0.75%, 1%, 1.25%, 1.50%, 1.75%, or 2.0% with certain exceptions. Any additional rate increase in CAGIT above 1% would be used to provide additional property tax replacement credits (PTRC). The additional PTRC would be allocated and distributed in the same manner that certified distributions used as PTRC are allocated by the county auditor to civil taxing units and school corporations under current law.

COIT: Under the bill, counties that impose COIT at 1% on January 1 of a given calendar year would be able to increase their COIT rate beyond 1% in increments of 0.2% until reaching a maximum rate of 2%. COIT counties would be required to have a tax rate of 1% on January 1 of a calendar year before adopting an ordinance to impose the additional rate increase allowed under the bill. (Under current law, COIT may be imposed initially at 0.2% on resident county taxpayers, with increases of 0.1% per year until the rate is 0.6%. At a 0.6% rate, the county income tax council may adopt further rate increases of 0.1% per year to a maximum tax rate of 1%.) As an example, a county with a COIT rate of 0.6% would require four additional years under current law to reach 1%.

Counties that are not at a 1% rate for COIT, yet are at the maximum combined rate for COIT and CEDIT, would have to reduce or eliminate the CEDIT in order to qualify for the additional COIT rate increase allowed under the bill. However, under current law, (IC 6-3.5-7-5(p)) counties may impose CEDIT at a rate of 0.25% above the combined maximum rate of CEDIT and COIT for the mitigation of increased ad valorem property taxes on homesteads that result from the statewide (beginning with tax year 2006 pay 2007) and county inventory deductions (effective until December 31, 2005). Both deductions are equal to 100% of AV on inventory. As of June 30, 2003, 13 counties have implemented both COIT and CEDIT.

The amount of PTRC that a civil taxing unit or school corporation could receive in a COIT county would equal the amount of the county's certified distribution dedicated to PTRC multiplied by the ratio of a unit's or school corporation's total property taxes collected divided by the total sum of all property taxes collected by all units and corporations in the county over a calendar year.

Civil taxing units and school corporations that do not impose a property tax levy first due and payable in a calendar year that PTRC is distributed would be entitled to receive a portion of the county's PTRC. The unit's or corporation's portion would equal the product of the county's certified distribution used for PTRC multiplied by the quotient of the unit's or corporation's budget and the total of the budgets of all units and corporations of the county over a calendar year.

The DLGF would be required to calculate the amount of PTRC for a county based only on property taxes imposed on tangible property that was assessed in that county. A unit or corporation located in more than one county that would receive additional PTRC from one or more of these counties would use the PTRC received only to reduce the property tax rates that are imposed within the county that distributed the PTRC.

CEDIT: A CAGIT or COIT rate increase as provided in the bill that would be used for additional PTRC would not be considered in the calculation of the county's CAGIT/CEDIT or COIT/CEDIT maximum combined rate provided under current law.

A county would be required to adopt an ordinance to increase their CAGIT or COIT rate for purpose of additional PTRC between January 1 and April 1 of a given year. However, the bill would allow a county to raise their CAGIT or COIT rate above 1% before May 1, 2004, that would be effective July 1, 2004.

Background: Under current law, counties with CAGIT and CEDIT may not exceed a combined rate of 1.25% with certain exceptions. The COIT and CEDIT combined rate may not exceed 1% with certain exceptions.

The CY 2004 certified distributions are: $420.2 M for COIT, $347.4 M for CAGIT, and $172.7 M for CEDIT.

State Agencies Affected: Department of Local Government Finance.

Local Agencies Affected: Counties, civil taxing units, school corporations.

Information Sources: Indiana State Budget Agency, *Revenue Technical Committee Forecast, April 10, 2003*; *Indiana Handbook of Taxes, Revenues, and Appropriations FY 2003.*

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